



# Petroleum Market Report

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Energy Information Administration  
Office of Oil & Gas

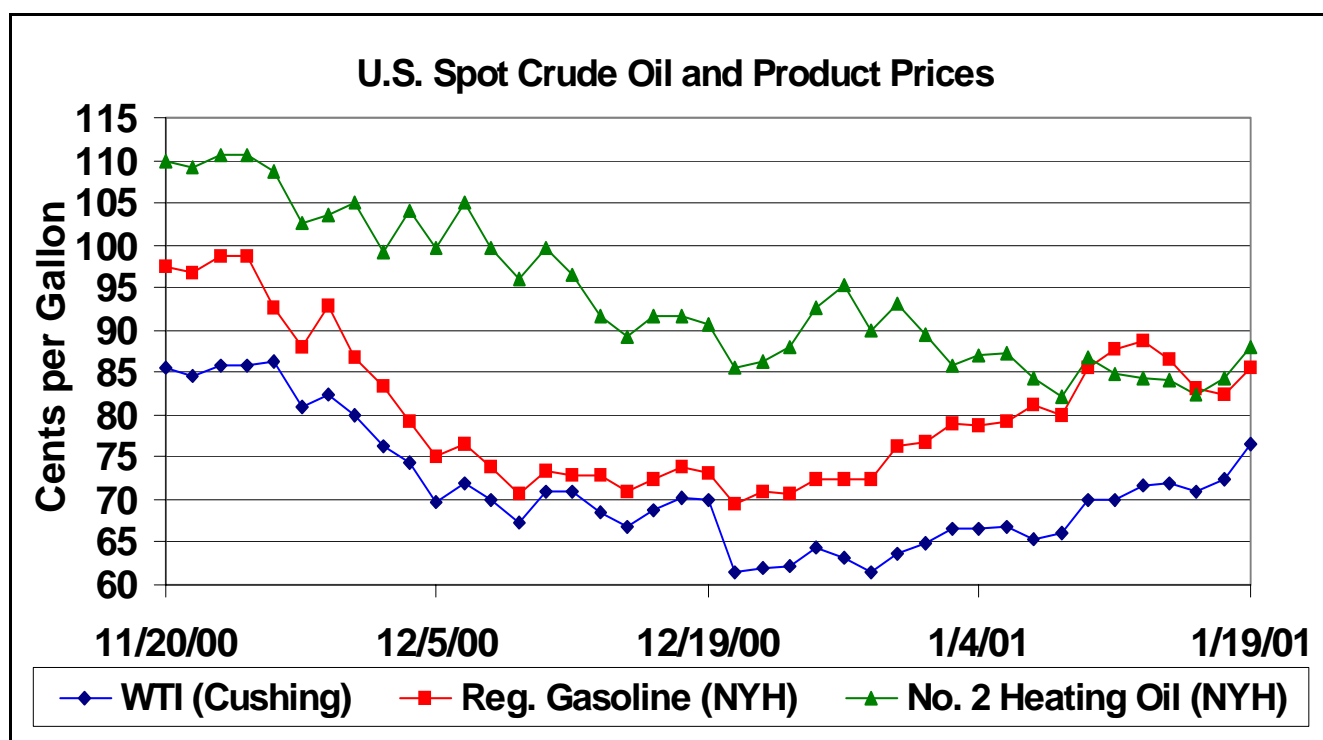
## MARKET SUMMARY

OPEC's decision to reduce its output quota by 1.5 million barrels per day beginning in February, as expected, was the most notable influence on U.S. and global petroleum markets last week. Following the 3-day Martin Luther King holiday weekend, markets reopened as OPEC ministers gathered in Vienna to finalize a response to crude oil prices that had fallen to eight-month lows in late December. Pre-meeting discussions and public comments by OPEC ministers had already established a likely reduction of 1.5 to 2 million barrels per day, pushing prices back up over \$30 per barrel (WTI) before the meeting. The group's announced cuts, falling at the low end of expectations, actually allowed prices to fall initially, before rising to end the week at their highest levels since late November. Other influences on markets last week included an announced refinery closure, reductions in RFG production, and forecast milder weather.

**Crude oil** - markets began the week awaiting OPEC's decision on output cuts, with prices having risen more than \$4 per barrel in 3 weeks of anticipation ahead of the meeting. Although prices actually dropped following the OPEC announcement, analysts cited the restarting of Iraqi exports from Ceyhan as a significant factor. A late-week surge to 7-week highs was attributed to impending NYMEX February contract expiration on January 22.

**Gasoline** - spot and futures prices posted the only declines in U.S. markets, despite news of a Midwestern refinery closure and reports of RFG production cuts due to high MTBE costs and poor margins. Strong imports were seen as a factor keeping gasoline prices in check.

**Distillate** - prices generally followed crude oil upward, with spreads marginally narrowing on forecast milder temperatures in the Northeast. Following early-season concerns, inventories have remained surprisingly stable, and now stand barely under year-ago levels, though well below seasonal norms.



## ***CHRONOLOGY OF RECENT MARKET EVENTS***

- 1/19 - rising** - prices climbed strongly across the board, largely attributed to NYMEX crude oil shortcovering ahead of February contract expiration on Monday. WTI spot and futures prices closed over \$32 per barrel, their highest level since November 30.
- 1/18 - mixed** - most prices moved higher, reversing Wednesday's declines, following mixed inventory reports and tough comments from President-elect George W. Bush regarding Iraq. Gasoline prices were the weakest, battered by strong imports, despite reported cutbacks in RFG production.
- 1/17 - falling** - all prices dropped, even as OPEC announced, as expected, a 1.5-million-barrel-per-day cut in its crude oil output quota. An expected stockbuild in the weekly API and EIA supply reports (delayed due to Monday's holiday), along with reports that Iraqi exports from Ceyhan are about to resume, were seen as factors in the decline.
- 1/16 - mixed** - crude oil prices rose slightly, while products fell, as markets reopened following the 3-day holiday weekend and with OPEC members gathering in Vienna for Wednesday's meeting. Saudi Arabian oil minister Ali Naimi claimed OPEC consensus for a 1.5-million-barrel-per-day output cut, despite a round of weekend visits by U.S. Energy Secretary Bill Richardson.
- 1/12 - mixed** - most prices moved higher ahead of the extended holiday weekend and next week's OPEC meeting, with the exception of New York Harbor distillates, which continued to be pressured by high levels of imports. Most traders and analysts appear to assume an OPEC quota cut of at least 1.5 million barrels per day, beginning in February.
- 1/11 - rising** - crude oil prices eased slightly in profit-taking after Wednesday's gains, outpaced by declining distillate prices, while gasoline posted another day of increases. Weakness in distillate markets was credited to strong imports and forecast warmer temperatures.
- 1/10 - rising** - prices rose strongly across the board, on reports that Saudi Arabia will cut February oil shipments by some 5 percent, in line with its advocacy of a 1.5-million-barrel-per-day OPEC output cut. Higher product stocks, record distillate imports, and resumption of Iraqi crude oil exports were insufficient to offset overwhelmingly bullish market sentiment.
- 1/9 - mixed** - crude oil prices partially recovered from Monday's losses, while products eased ahead of the weekly API and EIA supply reports. Distillate prices were the weakest, attributed to milder temperatures, expected stockbuilds, and reportedly strong imports.
- 1/8 - mixed** - crude oil and distillate prices fell, while gasoline continued upward on growing concerns about the effects of upcoming refinery maintenance on spring supplies. Crude selling was seen as technically driven, occurring despite a developing consensus within OPEC on output cuts.
- 1/5 - mixed** - most prices continued modestly higher, with only NYMEX crude oil ending lower in profit-taking ahead of the weekend. The resumption of Iraqi exports was seen as modestly bearish, but offset by the ongoing assumption that OPEC will cut output when it meets January 17.